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3) Prime Minister's Official Residence (Kantei)

Prime Minister's schedule, September 17

NIKKEI (Page 2) (Full)
September 18, 2008

10:15

Met Deputy Chief Cabinet Secretary Futahashi at the Kantei.

11:08

Met Assistant Chief Cabinet Secretary Saka and Cabinet Office policy directors-general Matsumoto and Yamazaki.

12:16

Met Futahashi and assistant chief cabinet secretaries Saka, Kawai and Yanagisawa. Futahashi stayed on.

14:33

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Met Prime Minister Wickremanayake of Sri Lanka.

15:14

Met Administrative Reform Minister Motegi, administrative streamlining blue-ribbon panel chairman Mogi and his deputy Asakura.

16:01

Met Saka, Deputy Chief Cabinet Secretary for Crisis Management Ito, and MHLW Health Bureau Director-General Ueda, followed by advisor Ito.

17:28

Met METI Minister Nikai joined by New Komeito leader Ota.

18:00

Attended a meeting of the Council on Economic and Fiscal Policy.

19:14

Met CEFP members at his official residence.

4) ASDF shoots down mock missile in 1st PAC-3 test in U.S.

TOKYO SHIMBUN (Page 3) (Full)
September 18, 2008

Japan tested the Air Self-Defense Force's Patriot Advanced Capability-3 (PAC-3), a ground-to-air missile making up Japan's missile defense (MD) systems designed to intercept ballistic missiles, at the White Sands Missile Range in New Mexico in the United States late at night on Sept. 17. According to the Defense Ministry, the ASDF fired two PAC-3 interceptors and shot down a mock missile launched by U.S. forces.

Japan's MD systems are two-tiered with the Standard Missile-3 (SM-3), a surface-to-air missile mounted on Aegis-equipped destroyers, and the PAC-3. The sea-based SM-3 system intercepts ballistic missiles, and the land-based PAC-3 system is to back up and shoot down missed ones. The ASDF has deployed the PAC-3 at four air defense missile units in the metropolitan area since March.

In the PAC-3 intercept test, a PAC-2 ground-to-air missile, which is designed to intercept aircraft, was used as a mock missile. The PAC-2 ranges approximately 100 kilometers. Its falling speed is a far cry from that of North Korea's Rodong ballistic missile, which reportedly has a range of 1,300 kilometers. The Rodong, in its terminal phase, falls at Mach 2.

"The test this time was intended to check the system's functionality," said an official of the Defense Ministry's Communication Systems and Guided Missile Systems Division. With this, the Defense Ministry does not seem to be particular about hitting accuracy.

The PAC-3 test cost about 2.5 billion yen, including payments to the U.S. government for on-site services and those for PAC-3 acquisition. The ASDF has annually test-fired PAC-2 missiles at the

missile range. However, the PAC-3 costs so much that the ASDF will carry out only one more test next year and will not conduct any more live-fire practice.

The Defense Ministry began in fiscal 2004 to introduce the MD systems and made an investment of 676.5 billion yen for four years

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up until last fiscal year. The MD systems are said to total 1 trillion yen, and their deployment is well under way with defense spending. Japan is the only country that has introduced the U.S.-developed MD systems. The United States currently deploys the PAC-3 at its bases in foreign countries but does not use it for its homeland defense.

5) Defense Ministry meets to overhaul defense program

MAINICHI (Page 2) (Full)
September 18, 2008

The Defense Ministry has set up an in-house board, headed by Defense Minister Yoshimasa Hayashi, to review Japan's defense capability, and held its first meeting yesterday of senior officials from its internal bureaus and brass officers from the Ground, Maritime, and Air Self-Defense Forces to go over the National Defense Program Guidelines (NDPG) (formerly known as the National Defense Program Outline or NDPO for short). The board will wrap up its views next summer. After the next prime minister is elected, a private advisory panel for the prime minister will also enter into full-fledged discussion. The guidelines will be revised by the end of next year.

This time around, the board will base its discussions on a report submitted by the government's Defense Ministry reform panel. It will focus mainly on reorganizing the Defense Ministry through such measures as integrating its bureaucracy and the SDF's uniformed staff for Japan's defense buildup. In addition, it is also expected to discuss changes in the international situation, such as the realignment of U.S. forces in Japan and North Korea's nuclear testing.

6) Japan-Russia ties in Georgia aftermath

ASAHI (Page 4) (Abridged)
September 18, 2008

Japan and Russia have annually conducted joint seaborne search and rescue drills. This year, however, the Maritime Self-Defense Force's annual training exercises with the Russian navy cannot be expected to take place. The United States and Russia have been at odds over the Georgian situation, so the Japanese government deems it unavoidable to forgo bilateral cooperation between Japan and Russia in the security area for the time being.

What lies behind such a volatile situation is the Georgia issue. Russia has been squaring off with the United States and Europe, and the North Atlantic Treaty Organization (NATO) has announced its plan to call off joint military training exercises with Russia. The United States will think twice about its military cooperation with Russia. In the economic area as well, the United States has decided to freeze its nuclear energy deal with Russia. As it stands, Foreign Ministry officials handling Japan-U.S. relations and security arrangements wonder if it is appropriate for Japan to do something military with Russia. "Japan-U.S. relations should come before Japan-Russia relations," one official said.

Meanwhile, Foreign Minister Lavrov, Industry and Energy Minister Khristenko, and Prime Minister Putin are scheduled to visit Japan toward the end of the year. There are also some officials in the Foreign Ministry who are concerned about a possible impact on Japan-Russia relations. One of them asserted that the Georgia issue

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took place in the expansion of NATO and that Japan, which is not a NATO member, is different. This assertion can be taken as suggesting

the need for Japan to keep away from the United States and Europe over Georgia.

Foreign Minister Koumura said: "We will work on Russia for what we should do, while maintaining our bilateral reciprocal relationship. Regarding the joint training exercises as well, the government will likely make a careful judgment while watching the future course of Russia's talks with the United States and Europe.

7) LDP, New Komeito agree to dissolve Lower House Oct. 3 and hold general election Oct. 26

ASAHI (Top play) (Abridged slightly)
September 18, 2008

The Liberal Democratic Party and the New Komeito have agreed to dissolve the Lower House on Oct. 3 and kick off the official campaign on Oct. 14 for a general election on Oct. 26, ruling party executives said. The New Komeito and its support base Soka Gakkai had tried to arrange the schedule to hold the election on Nov. 9, but the LDP decided that the election should be held while the next prime minister is still highly popular. The New Komeito accepted the LDP plan.

A final decision is likely to be made by Secretary General Taro Aso, who is enjoying a dominant lead in the LDP presidential race, after becoming the new LDP president on Sept. 22.

In a bid to carry the momentum of the LDP presidential race over to the next election, the LDP considered three possible election dates: Oct. 26, Nov. 2 and Nov. 9. Meanwhile, the New Komeito envisioned starting the official campaign on Oct. 28 for a Nov. 9 general election in order to secure a sufficient preparatory period to let the election sink in among its supporters.

The collapse of the U.S. major securities house Lehman Brothers also triggered strong financial concerns, and some LDP lawmakers called for postponing Lower House dissolution in order to have the fiscal 2008 supplementary budget enacted in the next extraordinary Diet session as a top priority. But the party leaned toward an early date, concluding that a late election would dampen the "congratulatory effects" of the new administration and that the economy would become worse sooner or later.

LDP Election Strategy Council Chairman Makoto Koga met Soka Gakkai officials in Osaka on Sept. 16 and obtained their informal consent to hold the election on Oct. 26. The New Komeito is likely to endorse the plan, and Soka Gakkai intends to inform its supporters of the decision later this week.

Koga met with Aso on Sept. 17 and briefed him on such developments. Koga also dined with Koga faction executives later in the day and confirmed the policy direction to make preparations for the Oct. 26 election.

The ruling bloc wants to ask the opposition camp for deliberations on important bills, including the supplementary budget bill, during the extraordinary Diet session. But given poor prospects for finding a settlement line on the timetable and other factors, the ruling coalition has decided to dissolve the Lower House on Oct. 3, the

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final day of the representative interpellations. The ruling bloc intends to have the supplementary budget enacted before the end of the year after the Lower House election.

8) Worldwide financial crisis dampens LDP's dissolution strategy

MAINICHI (Page 5) (Abridged slightly)
September 18, 2008

By Takuji Tanaka

The worldwide financial shock resulting from the collapse of the U.S. major securities house Lehman Brothers has dampened the ruling coalition's strategy of carrying out an early Lower House

dissolution and snap general election by taking advantage of the momentum of the upcoming LDP presidential election even by postponing the supplementary budget. The LDP remains unable to find any effective countermeasures, with one member saying, "The optimistic mood has disappeared." Meanwhile, the major opposition Democratic Party of Japan has proposed Diet deliberations on the supplementary budget and its adoption. Taking an aggressive approach, the DPJ is set to pursue the political vacuum resulting from the imminent changeover of the prime minister and the ruling coalition's lack of solid economic policy.

LDP Policy Research Council Chairman Kosuke Hori on Sept. 16 called the representatives of the camps of the five LDP presidential candidates to the party headquarters and urged them to touch on the Lehman issue in their ongoing campaign tours. Amid growing concerns that the U.S. financial turmoil might spill over to the Japanese economy, the LDP presidential candidates must play up their proactive responses to the matter so as not to draw national criticism.

Momentum was gaining strength in the ruling camp to dissolve the Lower House at an early date without waiting for the enactment of the fiscal 2008 supplementary budget backing the government's package of economic stimulus measures. But in the wake of the Lehman shock, a joint council, including the LDP Finance and Banking Systems Research Council, presented to the government and the Bank of Japan on Sept. 17 a proposal calling for early enactment of a supplementary budget.

Economic and Fiscal Policy Minister Kaoru Yosano said to reporters: "It is lawmakers' responsibility to deliberate on the supplementary budget and obtain Diet approval for it at an early date to help small and medium-sized businesses." An aide to Secretary General Taro Aso also discouraged talk of an early Lower House dissolution, saying: "Mr. Aso will generate his policy imprint by beefing up the economic stimulus package. There will be no dissolution without it."

Once the next extraordinary Diet session opens, the opposition bloc is certain to pursue the tainted rice issue and other matters. The Democratic Party of Japan is waiting for a delayed Lower House election, thinking it will benefit the party. The LDP is increasingly jittery, but without anyone in control, the party remains unable to make decisions.

Representative Akihiro Ota of the New Komeito, which is united for an early dissolution, asked Prime Minister Yasuo Fukuda on Sept. 17 for speedy responses to the Lehman and tainted rice issues. The

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prevailing view in the party is that those issues must not be linked to the dissolution.

9) LDP decides to hold general election on Oct. 26, putting extra budget bill on backburner

ASAHI (Page 4) (Excerpts)
September 18, 2008

The Liberal Democratic Party (LDP) has decided to hold the next general election on Oct. 26. When concerns about the nation's economy is growing in the wake of the U.S. financial crisis, the Democratic Party of Japan (DPJ) unofficially proposed a plan to dissolve the House of Representatives through talks after the supplementary budget bill clears the Diet, but the LDP declined it, seeing the proposal as intended to delay Lower House dissolution. The New Komeito also accepted the LDP's new plan.

LDP Diet Affairs Committee Chairman Tadamori Oshima and his DPJ counterpart Kenji Yamaoka met in the Diet Building yesterday.

Yamaoka: "How about considering a plan to dissolve the Lower House through talks after the two parties make as many concessions as possible on the supplementary budget bill."

Oshima: "The bill includes expenses to finance highway construction

and maintenance. Will you support the bill that includes the measure you opposed?"

Yamaoka proposed that the ruling and opposition parties in cooperation should first dispose of key bills through negotiations and then dissolve the Lower House. Yamaoka also suggested that party head talks be held after the new administration is inaugurated. But Oshima retorted: "Although Secretary General Hatoyama has said over the past year that the prime minister who has yet to seek the people's confidence should seek the judgment of the people at an early date after the Lower House is dissolved. Did he change his mind?"

In the politically divided Diet situation, the LDP has been stabbed in the back by the DPJ over bills related to tax reform, the selection of new Bank of Japan chief, and other issues. The supplementary budget bill for fiscal 2008 appropriates 66 billion yen to cover the loss accrued from the one-month invalidation of the provisional high rates of the gasoline and other road-related taxes. Because the rates lost effect due to the DPJ's opposition, Oshima declined the proposal made by the DPJ while remaining noncommittal about the extra budget bill.

After meeting Yamaoka, Oshima emphasized: "Considering what the DPJ has done over the past year, we cannot easily accept the proposal."

10) DPJ proposes plan to dissolve Lower House through discussion, seeking to constrain LDP from doing so at beginning of extra Diet session

NIKKEI (Page 2) (Slightly abridged)
September 18, 2008

Democratic Party of Japan (DPJ) Diet Affairs Committee Chairman Kenji Yamaoka, in his meeting yesterday with Liberal Democratic Party (LDP) Diet Affairs Committee Chairman Tadamori Oshima,

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proposed a plan to dissolve the House of Representatives through discussions, which means that the DPJ would cooperate with the LDP to pass a supplementary budget for fiscal 2008 through the Diet during the upcoming extraordinary Diet session on the condition that the Lower House would be dissolved during the extra Diet session. Oshima, however, avoided giving an answer, just saying: "That's something the new prime minister will consider." The ruling coalition is mulling Lower House dissolution at the outset of the extra Diet session.

In their meeting yesterday, Yamaoka and Oshima attempted to probe the intentions of each other.

Yamaoka: "Don't you think the Lower House should be dissolved after holding deliberations at least two days in both chambers of the Diet?"

Oshima: "Unless the DPJ makes its position clear on the supplementary budget, we won't be able to tell the next prime minister."

Yamaoka suggested setting four days for deliberations on the supplementary budget on Oct. 6-9 and modifying the contents of the supplementary budget. Yamaoka also told Oshima: "We will not unnecessary delay deliberations." Oshima, however, expressed his distrust of the DPJ, saying: "When thinking about the last one year of our dealings with the DPJ, I cannot easily accept your proposal."

The LDP's basic strategy is to dissolve the Lower House at the outset of the extra Diet session immediately after receiving attentions from voters through its presidential election. The ruling coalition has focused on a schedule -- kicking off the official campaign of a general election on Oct. 14 and setting the voting date for Oct. 26, after the Lower House is dissolved on Oct. 3, after ending each party's representative interpellations in both Diet houses.

Many in the ruling coalition have become doubtful and suspicious about the DPJ because they have been badly let down many times since last July when the divided Diet was created through the Upper House election. The dominant view in the ruling coalition is that the DPJ aims to tarnish the image of the new government through deliberations at the Diet."

The ruling camp has a weak point, as well. It describes its comprehensive economic stimulus package as "emergency" measures. There are many issue to address, including the U.S. Lehman Brothers bankruptcy and the illegal resale of tainted rice. If the ruling camp dissolves the Lower House unilaterally, the opposition bloc would criticize it for giving priority to the political situation rather than the daily lives of people.

Meanwhile, the opposition camp, which has called for an early Lower House dissolution, wants to avoid holding a general election soon after the new prime minister is inaugurated. In order also to pursue the responsibilities of the government for the illegal resale of tainted rice and the pension-record mess, they strongly want to secure enough time for deliberations.

The DPJ predicts that even if its suggestion is turned down, it would be able to fend off criticism that it killed an emergency

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economic stimulus package. Yamaoka indicated yesterday that the DPJ would accept a party-heads meeting for an agreement between the ruling and opposition camps.

11) LDP makes recommendations for financial stabilization

NIKKEI (Page 2) (Full)
September 18, 2008

All ruling and opposition parties yesterday played up the need for a strong response to financial uncertainty, following the failure of the U.S. major securities firm Lehman Brothers Holding Inc. The ruling Liberal Democratic Party (LDP), in a joint meeting of its Research Commission on the Finance and Banking Systems and other commissions, came up with a set of recommendations, which include 1) securing the stability of financial markets through cooperation with other countries, and 2) compiling a package of emergency economic measures, including a supplementary budget, by the government. The LDP submitted it to the Bank of Japan and the Financial Services Agency.

Akihiro Ota, chief representative of the New Komeito, the LDP's coalition partner, yesterday asked Prime Minister Yasuo Fukuda to quickly come up with measures for smaller companies experiencing funding difficulties. Fukuda told Ota: "I will take adequate measures."

The main opposition Democratic Party of Japan set up a financial task team, headed by Upper House member Kohei Otsuka.

12) PNP to merge with DPJ out of worry that it might be shunted into background in Lower House election

YOMIURI (Page 4) (Full)
September 18, 2008

The People's New Party (PNP, Kokumin Shinto led by Tamisuke Watanuki) on September 17 decided to accept a proposal for a merger with the Democratic Party of Japan (DPJ or Minshuto) before the envisaged Lower House election. This is because with the approaching dissolution of the Lower House for a snap election, the party felt a sense of crisis that it might be shunted into the background of the two major parties -- the Liberal Democratic Party (LDP) and the DPJ.

The PNP has five Lower House lawmakers, of whom President Watanuki (Toyama No. 3 constituency), Deputy President Shizuka Kamei (the Hiroshima No. 6 constituency) and Lower House member Mikio Shimoji (Okinawa No. 1 constituency. Unaffiliated at the time of election) were elected from single-seat constituencies. Secretary General

Hisaoki Kamei was elected from the Chugoku proportional representation bloc, although he also ran for a single-seat constituency. Masaaki Itokawa, chairman of the Election Committee, was elected from the Hokuriku proportional representation bloc. He ran only for the proportional representation system. Candidates who have already been endorsed informally by the PNP and the DPJ are expected to compete in two constituencies in the next Lower House election. There is also a possibility of the two parties competing in five more constituencies.

Many observers say that next Lower House election would be a decisive battle between the LDP and the DPJ, as a senior DPJ

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official said. Under such a circumstance, an increasing number of PNP members have been strengthening their view that if the PNP merges with the DPJ, the possibility of PNP candidates winning in single-seat constituencies or making a come back would increase. At such time, the DPJ has timely decided to incorporate a revision to postal privatization, the starting line of the PNP's formation, into its manifesto, paving the way for the party to accept the merger proposal.

13) Policy evaluation by Nippon Keidanren: LDP receives 10 A's; DPJ all zeros

YOMIURI (Page 2) (Abridged slightly)
September 18, 2008

Nippon Keidanren (Japan Business Federation) on September 17 released its policy evaluation for 2008, which will serve as guidelines when its member companies and organizations donate money to the Liberal Democratic Party or to the Democratic Party of Japan (DPJ or Minshuto).

Regarding the LDP, the organization highly evaluated its efforts to address the global warming issue at the Hokkaido Lake Toya Summit (G-8) and gave a record high of 10 A's among 30 evaluation items under the categories of "consistency," "effort" and "actual achievement." It determined that the direction of individual policies is consistent." However, no A's were given to items under the "actual achievement" category.

The DPJ, which visibly took a confrontational stance in the divided Diet, received harsh marks -- six D's -- up two from the preceding year's evaluation, the second lowest mark, for 20 items under the "consistency" and "effort" categories.

Nippon Keidanren member companies and organizations in 2007 donated 2.91 billion yen to the LDP and 80 million yen to the DPJ.

14) Former Agriculture Minister Tamazawa to retire from politics

NIKKEI (Page 2) (Full)
September 18, 2008

It was learned yesterday that Tokuichiro Tamazawa, a House of Representatives member belonging to no party, 70, would not run in the next Lower House election and retire from politics. Tamazawa, who is now serving in his 9th term in the Diet, served as director general of the former Defense Agency, and minister of agriculture, forestry and fisheries. He left the Liberal Democratic Party (LDP) last September to take responsibility for the LDP local chapter, which he headed, having fabricated receipts included in a political funds report.

Former Agriculture Minister Endo plans to retire from politics

It has been learned that Former Agriculture, Forestry and Fisheries Minister Takehiko Endo, a member of the ruling Liberal Democratic Party (LDP), who represents the Yamagata No. 2 constituency, will not run in the next House of Representatives election and retire from politics. He is expected to formally announce his intention as early as today. Endo is now serving in his 6th term in the Lower House.

15) Bailout of AIG: "FRB has made the best decision," says BOJ governor: Bumpy road ahead for U.S. financial situation

YOMIURI (Page 8) (Excerpts)
September 18, 2008

Bank of Japan (BOJ) Governor Masaaki Shirakawa during a press conference held after the Policy Board meeting on monetary policy on September 17 gave a high score to the U.S. Federal Reserve Board's (FRB) decision to take to bail out AIG, the largest insurance company in the U.S. He said, "The FRB has made the best decision under the current situation." Regarding the U.S. financial situation, which is increasingly becoming unstable in the wake of the failure of Lehman Brothers, a leading securities firm, he said, "There still will be a bumpy road ahead." He thus indicated his view that the situation will require continued vigilance after the bailout of AIG as well."

The focus of highest attention at the BOJ meeting was what impact the financial situation in the U.S., which is moving quickly as dictated by such incidents as the collapse of Lehman Brothers and the bailout of AIG, would have on the global economy. Citing the fall in housing prices and the expanding losses from securitized products, Shirakawa expressed concern that the current financial crisis could become protracted. He noted, "The root-cause of the problem remains unsettled."

Comparing the difficulty of settling the problem with the financial crisis Japan experienced in 1997, he said, "The negative synergism of the capital shortfall that banks are now facing due to increased non-performing loans spilling over to the real economy is still at work."

The FRB has decided to bailout AIG the same day when the BOJ held the meeting. Regarding this decision, a point has been made that the extension of massive funds by the FRB to a faltering company could damage the fiscal soundness of the central bank. Shirakawa indicated his perception that the injection of public money should be carried out, based on fiscal funds. He then noted, "The most important role of the central bank is to prevent risks involving the financial system from surfacing. The FRB's response has contributed to stabilizing the dollar."

16) Poll of 209 major firms: 85 PERCENT see economy sliding into recession, half of respondents expect recovery in latter half of next year

TOKYO SHIMBUN (Top Play) (Full)
September 18, 2008

In a survey of 209 major companies across the nation (conducted from late August through mid-September) by the Tokyo Shimbun, about 70 PERCENT of respondents replied that the Japanese economy was moderately slipping into recession. About half said that the economy would start on an upward slope in the latter half of the next year. The government has already recognized that the economy has entered a recessionary phase, given global economic slowdown and soaring raw material prices.

In the survey, 70.7 PERCENT of respondents said that the economy was moderately sliding into recession, up 19.2 PERCENT in the previous survey in April. Those who said the economy was sliding

into recession accounted for 14.4 PERCENT. The survey showed that 85.1 PERCENT recognized that the economy has been in a recessionary phase.

In the previous poll, about 20 PERCENT said that the economy was expanding, but this time, no optimistic reply was presented.

Asked about prospects for economic conditions in the latter half of

fiscal 2008, more than 70 PERCENT said that the economy would be on a downward trend, with 61.5 PERCENT replying that the economy would be moderately slipping into recession while 13.0 PERCENT saying that the economy would be slipping into recession.

In reply to a question about the timing for recovery, 23.2 PERCENT cited July-September in 2009, and 27.5 PERCENT predicted October-December in 2009. The survey showed that about half of the respondents expected that the economy would get back on its feet in the latter half of 2009. Companies that cited the first half of 2009 accounted for 24.5 PERCENT . But 16.4 PERCENT said that the economy would not move to a recovery track before 2010.

SCHIEFFER